MULTIMEDIA UNIVERSITY

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FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BFN 2074 – PUBLIC FINANCE
(All sections/ Groups)

28 FEBRUARY 2020
(3.00 P.M. – 5.00 P.M.)
(2 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 2 pages excluding cover page with 5 questions.

2. Attempt all the questions. The distribution of the marks for each question is given.

3. Please answer all questions in the Answer Booklet provided.

Please Answer All the Questions

Question 1 (20 marks)

What are the advantages and disadvantages of preventing the federal budget from ever being in deficit? In your answer, discuss only public finance aspects of the deficit rather than macroeconomic issues. Explain why the high employment deficit or surplus might differ from the actual budget deficit or surplus.

Question 2 (20 marks)

The annual demand for beverages in a certain state is given by the following equation:

$Q_D = 500,000 - 20,000P$

Where P is the price per gallon and Q_D is quantity of gallons demanded per year. The supply of beverages is given by the equation below:

$Q_S = 30,000P$

Solve for the equilibrium annual quantity and price of beverages. Suppose that a RM1 per gallon tax is levied on the price of beverages received by sellers. Use algebraic techniques to show the impact of the tax on market equilibrium. Calculate the excess burden of the tax, the amount of revenues collected, and the incidence of the tax between buyers and sellers.

Question 3 (20 marks)

How does government finance affect both political and market equilibrium?

Question 4: (20 marks)

a) One method commonly used by both governments and private health insurers to control the growth in health care spending is to limit reimbursement to providers. How can these limits to reimbursement be viewed as the exercise of monopoly power? To prevent health care providers from prescribing more services, it is often common to limit approval of services to health care recipients. How will this practice affect the recipients of Medi Card (Insurance card)? **(10 marks)**

b) What is a mixed economy? How does an increase in government taxation and purchases affect the circular flow of income and expenditures in a mixed economy? **(10 marks)**

Question 5: (20 marks)

a) What is program budgeting? What information and procedures are required to implement a cost effectiveness analysis of government programs? **(10 marks)**

b) Suppose a proposed new road to be constructed in Kuala Lumpur between Bangi and Seremban city will lower the average cost per trip by car from RM4 to RM5. Currently, 500,000 trips are made between the two cities per year. An estimate indicates that, all other things being equal, the new road will increase the number of trips per year to 600,000. Calculate the annual benefits to motorists of the road based on their willingness to pay. **(10 marks)**

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